



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

July 27, 2009

Richard T Rossiter
AVP, Learning Administration
HSBC Card Services, Inc.
26525 North Riverwoods Blvd.
Mettawa, IL, 60045

Dear Mr. Rossiter:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET06-0207 for the period December 30, 2005 through December 29, 2007.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditors during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by:

Stephen Runkle
Audit Manager

Enclosures

cc: Chris Mangle, VP Contract Administration, Training Funding Partner

SACRAMENTO CENTRAL OFFICE
1100 J Street, 4th Floor
SACRAMENTO, CA 95814
(916) 327-5640

N. HOLLYWOOD REGIONAL OFFICE
4640 Lankershim Blvd., Suite 311
NORTH HOLLYWOOD, CA 91602
(818) 755-1313

S.F. BAY AREA REGIONAL OFFICE
1065 East Hillsdale Blvd, Suite 415
FOSTER CITY, CA 94404
(650) 655-6930

SAN DIEGO REGIONAL OFFICE
5353 Mission Center Road, Suite 110
SAN DIEGO, CA 92108
(619) 686-1920

HSBC CARD SERVICES, INC.

Agreement No. ETo6-0207

Final Audit Report

For The Period

December 30, 2005 through December 29, 2007

Report Published July 27, 2009

Stephen Runkle, Audit Manager
Telephone: (916) 327-4758

Audit Staff: Eric Khotpanya, Auditor-in-Charge
Shannon Brooks

Employment Training Panel
Audit Unit
1100 J Street FL 4
Sacramento, CA 95814-2827

ET06-0207.fnl

SACRAMENTO CENTRAL OFFICE
1100 J Street, 4th Floor
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(916) 327-5640

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AUDITOR'S REPORT

Summary

We performed an audit of HSBC Card Services, Inc., Agreement No. ET06-0207 for the period December 30, 2005 through December 29, 2007. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period February 23, 2009 through February 26, 2009.

The Employment Training Panel (ETP) paid the Contractor a total of \$453,341. Our audit supported that \$452,464 is allowable. The balance of \$877 is disallowed and must be returned to ETP. The disallowed costs resulted from two trainees who did not meet retention period requirements.

AUDITOR'S REPORT (continued)

Background

HSBC Card Services, (HSBC), is an issuer of MasterCard/Visa credit cards in the United States. The company is headquartered in Salinas, where it employs over 1,400 Californians. HSBC credit cards are offered to consumers underserved by traditional providers in the United States.

This Agreement was first between HSBC and ETP. To maintain market share in a fiercely competitive environment, the company needed to improve efficiency and implement technological advances, along with developing and providing new products to improve customer service and set HSBC apart from its competitors. Therefore, this Agreement provided for training in Business Skills, Computer Skills and Continuous Improvement.

This Agreement allowed HSBC to receive a maximum reimbursement of \$1,496,339 for retraining 2,449 employees. During the Agreement term, the Contractor placed 740 trainees and was reimbursed \$453,341 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of HSBC Card Services, Inc. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that HSBC Card Services, Inc. complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time HSBC Card Services, Inc. for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.

AUDITOR'S REPORT (continued)

- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Finding and Recommendation Section of our report, our audit supported \$452,464 of the \$453,341 paid to the Contractor under this Agreement was allowable. The balance of \$877 was not earned according to the terms of the Agreement and must be returned to ETP.
Views of Responsible Officials	The audit finding was discussed with Richard Rossiter, AVP, Learning Administration at an exit conference held on February 26, 2009. Mr. Rossiter agreed to bypass issuance of the draft report and proceed to the final audit report.
Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
Records	Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

AUDITOR'S REPORT (continued)

Stephen Runkle
Audit Manager

Fieldwork Completion Date: February 26, 2009

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET06-0207 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

HSBC CARD SERVICES, INC.

AGREEMENT NO. ET06-0207

FOR THE PERIOD

DECEMBER 30, 2005 THROUGH DECEMBER 29, 2007

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 453,341</u>	
Costs Disallowed:		
Post-Training Retention Requirement Not Met	877	Finding No. 1
Total Costs Disallowed	<u>\$ 877</u>	
Training Costs Allowed	<u><u>\$ 452,464</u></u>	

* See Finding and Recommendation Section.

FINDING AND RECOMMENDATION

FINDING NO. 1 – HSBC Card Services, Inc. (HSBC) payroll records show HSBC Post-Training Retention Requirement Not Met received reimbursement for the training costs of two trainees who did not meet post-training retention requirements. Therefore, we disallowed \$877 (\$461 + 416) in training costs claimed for these trainees.

Exhibit A, paragraph VII. A. of the Agreement between HSBC and ETP states, "Each trainee must be employed full-time, at least 35 hours per week, with a single participating employer for a period of at least ninety (90) consecutive days immediately following the completion of training."

HSBC reported that Trainee No. 1 completed a post-training retention period from May 27, 2006 to August 25, 2006. However, HSBC payroll information indicates that Trainee No. 1 terminated employment on August 1, 2006. Thus, Trainee No. 1 was retained for only 66 days of the 90 days required by the Agreement. The Contractor provided documentation that indicated he voluntarily terminated employment. However, Employment Development Department (EDD) base wage information does not support subsequent full-time employment in California within the term of the Agreement.

HSBC reported that Trainee No. 2 completed a post-training retention period from December 8, 2006 to March 7, 2007. However, HSBC payroll information indicates that Trainee No. 2 was not paid for full-time employment by HSBC past December 19, 2006. Therefore, Trainee No. 2 remained employed full-time for only 12 days of the 90 days required by the Agreement. No information supports she voluntarily terminated employment. Furthermore, EDD base wage information does not support subsequent full-time employment in California within the term of the Agreement.

Recommendation HSBC must return \$877 to ETP. In the future, the Contractor should ensure trainees meet post-training retention requirements prior to claiming reimbursement from ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006